

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Ypsilanti District Library</u>	County Washtenaw
Audit Date November 30, 2004	Opinion Date January 25, 2005	Date Accountant Report Submitted To State: April 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

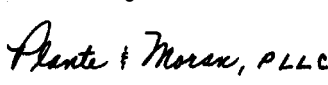
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48037-0307
Accountant Signature 			

# **Ypsilanti District Library**

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**Financial Report  
with Supplemental Information  
November 30, 2004**

# Ypsilanti District Library

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## Independent Auditor's Report

To the Board of Trustees  
Ypsilanti District Library

We have audited the accompanying basic financial statements of the Ypsilanti District Library as of and for the year ended November 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Ypsilanti District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Ypsilanti District Library as of November 30, 2004 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules - General Fund and Debt Service Fund as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Library's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees  
Ypsilanti District Library

As discussed in Note I, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

*Plante & Moran, PLLC*

January 25, 2005

# Ypsilanti District Library

## Management's Discussion and Analysis

This discussion and analysis of the Ypsilanti District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended November 30, 2004. Please read it in conjunction with the Library's financial statements.

### Using this Annual Report

The funds are presented on the modified accrual basis of accounting, which is a short-term view that tells us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. This information is then adjusted to the full accrual basis to present a longer-term view of the Library as a whole. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The modified accrual basis financial statements provide detail information about the Library's current financial resources. This information is important as it demonstrates compliance with various state laws and shows the stewardship of the Library's annual property tax and other revenue.

The Library's full accrual basis financial statements present information about the Library's total economic resources, including long-lived assets and long-term obligations. This information is important as it recognizes the long-term ramifications of decisions made by the Library on an ongoing basis.

### Condensed Financial Information

The following table below shows key financial information in a condensed format:

#### Assets

Cash and cash equivalents	\$ 2,999,156
Investments	818,509
Capital assets	19,177,315
Other assets	<u>138,026</u>
Total assets	23,133,006

#### Liabilities

Long-term liabilities	14,450,985
Other liabilities	<u>1,153,432</u>
Total liabilities	<u>15,604,417</u>

# Ypsilanti District Library

## Management's Discussion and Analysis (Continued)

### Net Assets

Invested in capital assets - Net of debt	\$ 4,062,315
Restricted for debt service payments	279,965
Restricted for donor-restricted purpose	50,613
Unrestricted	<u>3,135,696</u>

Total net assets \$ 7,528,589

### Revenue

Property taxes	\$ 3,966,997
Other	<u>512,288</u>

Total revenue 4,479,285

Expenses 4,960,938

Change in Net Assets \$ (481,653)

### Full Accrual Analysis

The full accrual statement of activities shows a decrease in net assets of \$481,653. This decrease includes \$427,871 of spending in the Construction Fund for construction and renovation cost and the arbitrage charge of \$293,678. The Construction Fund and General Fund combined to acquire \$410,487 in new capital assets while depreciation charges were \$1,233,508 for the year. The Debt Service Fund reduced the debt principal by \$650,000.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total \$3,135,696. Unrestricted net assets increased during the year by approximately \$43,000.

### Modified Accrual Analysis

The General Fund pays for all of the Library's services. The most significant costs are for personnel and related staffing expenses of \$1,787,307, which accounted for 60 percent of the total operating expenditures in the year ended November 30, 2004. Library acquisition cost for materials and programs was \$401,712, or 13 percent of the total operating expenditures. The remaining categories are: "contractual services" of \$209,868 (7 percent), "automation and capital outlay", \$151,484 (5 percent), and "other", which includes supplies, tax rebates, and other expenditures, \$440,446 (15 percent).

# **Ypsilanti District Library**

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## **Management's Discussion and Analysis (Continued)**

### **Budgetary Highlights**

For the year ended November 30, 2004, the Ypsilanti District Library adopted GASB Statement Number 34 for reporting purposes to be in compliance with accounting principles generally accepted in the United States of America applied to governmental reporting units.

The Construction Fund, which was funded in 1999 by the issuance of general obligation bonds and by special allocations from the General Fund, was closed during the fiscal year. Construction of the Whittaker Road facility and renovation of the Michigan Avenue facility are considered to be complete and the purposes of the fund satisfied.

For the reporting period ended November 30, 2004, salary and other operating costs, including acquisitions, were reported by location. Previous reports included all salary and most other costs combined. It is believed that the change will provide for improved management oversight.

### **Capital Asset and Debt Administration**

As of November 30, 2004, the Ypsilanti District Library had \$19,177,315 invested in a broad range of capital assets, including building, collections, furniture, and equipment.

For the year ended November 30, 2004, the Ypsilanti District Library purchased books at a cost of \$355,107 and other capital assets at a cost of \$55,380.

In 1999, when bonds were issued, the Ypsilanti District Library credit rating was A+. All payments for interest and principal have been made in accordance with the bond schedule.

### **Economic Factors and Next Year's Budgets and Rates**

The Ypsilanti District Library's budget for the fiscal year ending November 30, 2005 has assumed increases in tax delinquencies. During the year ended November 30, 2004, tax refunds caused by settled appeals exceeded \$53,000. Penal fines are budgeted using best judgment. There are changes in state mandated fines pending that may affect the distribution of penal fines to the Library. State aid and revenue-sharing funds have been budgeted with no increases expected. There is a concern about the future status of state aid and revenue-sharing funds.

Operating costs were increased to reflect expected inflation without increases in quantities purchased. Labor cost was estimated to increase by approximately 3 percent with no change in staffing patterns. Subsequent labor agreements may cause an increase in labor cost.



# **Ypsilanti District Library**

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## **Management's Discussion and Analysis (Continued)**

### **Key Performance Indicators**

- Items borrowed: 600,000 (approximately 13 percent increase over the year ended November 30, 2003)
- Program attendance: 24,000
- Reference questions answered: 96,666
- Percentage of population with Library cards: 68 percent

### **Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to provide accountability for the resources entrusted to the trustees and the management of Ypsilanti District Library. If you have questions about this report, or need additional information, contact the director, Jill Morey, at (734) 879-1300.

# Ypsilanti District Library

Modified Accrual Basis				
	General Fund	Debt Service Fund	Capital Projects Fund	Total
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 2,729,962	\$ 269,194	\$ -	\$ 2,999,156
Investments (Note 3)	818,509	-	-	818,509
Property taxes receivable	85,412	-	-	85,412
Other receivables	24,339	-	-	24,339
Due from other governmental units	28,275	-	-	28,275
Due from General Fund	-	10,771	-	10,771
Fixed assets (Note 4)	-	-	-	-
Total assets	<u>\$ 3,686,497</u>	<u>\$ 279,965</u>	<u>\$ -</u>	<u>\$ 3,966,462</u>
<b>Liabilities</b>				
Accounts payable	\$ 78,836	\$ -	\$ -	\$ 78,836
Accrued and other liabilities	79,987	-	-	79,987
Deferred revenue:				
Property taxes	78,231	-	-	78,231
Superior Township contract	46,000	-	-	46,000
Insurance proceeds	34,088	-	-	34,088
Single business tax	11,622	-	-	11,622
Retainage payable	26,494	-	-	26,494
Due to Debt Service Fund	10,771	-	-	10,771
Long-term liabilities (Note 5):				
Bonds payable, due within one year	-	-	-	-
Accumulated employee benefits, due within one year	-	-	-	-
Bonds payable, due in more than one year	-	-	-	-
Accumulated employee benefits, due in more than one year	-	-	-	-
Total liabilities	<u>366,029</u>	<u>-</u>	<u>-</u>	<u>366,029</u>
<b>Fund Balance</b>				
Reserved:				
Debt Service	-	279,965	-	279,965
Yoder Memorial Fund	3,036	-	-	3,036
Yates Memorial Fund	3,327	-	-	3,327
Reaume Memorial Fund	1,783	-	-	1,783
Michigan Avenue Park	33,100	-	-	33,100
Tubman Statue	9,367	-	-	9,367
Unreserved:				
Designated for working capital	750,000	-	-	750,000
Designated for improvement fund	1,582,410	-	-	1,582,410
Designated capital fund deficiency	400,000	-	-	400,000
Undesignated	537,445	-	-	537,445
Total fund balance	<u>3,320,468</u>	<u>279,965</u>	<u>-</u>	<u>3,600,433</u>
Total liabilities and fund balance	<u>\$ 3,686,497</u>	<u>\$ 279,965</u>	<u>\$ -</u>	<u>\$ 3,966,462</u>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt				
Restricted for debt service payments				
Restricted for donor-restricted purpose				
Unrestricted				
Total net assets				

## General Fund Balance Sheet/Statement of Net Assets November 30, 2004

Adjustments (Note 9)	Statement of Net Assets, Full Accrual Basis
\$ -	\$ 2,999,156
-	818,509
-	85,412
-	24,339
-	28,275
(10,771)	-
<u>19,177,315</u>	<u>19,177,315</u>
<b>\$ 19,166,544</b>	<b>\$ 23,133,006</b>
\$ -	\$ 78,836
58,520	138,507
(78,231)	-
-	46,000
-	34,088
-	11,622
-	26,494
(10,771)	-
695,000	695,000
122,885	122,885
14,420,000	14,420,000
30,985	30,985
<u>15,238,388</u>	<u>15,604,417</u>
(279,965)	-
(3,036)	-
(3,327)	-
(1,783)	-
(33,100)	-
(9,367)	-
(750,000)	-
(1,582,410)	-
(400,000)	-
(537,445)	-
<u>(3,600,433)</u>	<u>-</u>
4,062,315	4,062,315
279,965	279,965
50,613	50,613
3,135,696	3,135,696
<u>\$ 7,528,589</u>	<u>\$ 7,528,589</u>

# Ypsilanti District Library

	Modified Accrual Basis			
	General Fund	Debt Service Fund	Capital Projects Fund	Total
<b>Revenue</b>				
Property taxes	\$ 2,482,095	\$ 1,409,774	\$ -	\$ 3,891,869
Penal fines	158,386	-	-	158,386
State revenue-sharing	39,897	-	-	39,897
State aid:				
Direct	34,829	-	-	34,829
Indirect	34,829	-	-	34,829
Superior Township contract	46,000	-	-	46,000
Miscellaneous	100,778	-	-	100,778
Interest income	50,237	3,804	3,052	57,093
Donations	28,532	-	-	28,532
Friends of the Library gift	11,944	-	-	11,944
Total revenue	2,987,527	1,413,578	3,052	4,404,157
<b>Expenditures</b>				
Administration	1,192,499	-	-	1,192,499
Michigan Avenue	368,609	-	-	368,609
Bookmobile	44,575	-	-	44,575
Whittaker Road	1,374,972	-	-	1,374,972
Expenditures from donations revenue	10,162	-	-	10,162
Debt Service:				
Principal	-	650,000	-	650,000
Interest	-	717,175	-	717,175
Capital projects	-	-	420,923	420,923
Total expenditures	2,990,817	1,367,175	420,923	4,778,915
<b>Excess of Revenue Over (Under) Expenditures</b>	(3,290)	46,403	(417,871)	(374,758)
<b>Other Financing Sources (Uses)</b>				
Transfers in	6,108	413	-	6,521
Transfers out	-	-	(6,521)	(6,521)
Total other financing sources (uses)	6,108	413	(6,521)	-
<b>Change in Fund Balance/Net Assets</b>	2,818	46,816	(424,392)	(374,758)
<b>Fund Balance/Net Assets - December 1, 2003</b>	3,317,650	233,149	424,392	3,975,191
<b>Fund Balance/Net Assets - November 30, 2004</b>	<u>\$ 3,320,468</u>	<u>\$ 279,965</u>	<u>\$ -</u>	<u>\$ 3,600,433</u>

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**Statement of General Fund Revenue, Expenditures, and  
Changes in Fund Balance/Statement of Activities  
Year Ended November 30, 2004**

Adjustments (Note 9)	Statement of Activities, Full Accrual Basis
\$ 75,128	\$ 3,966,997
-	158,386
-	39,897
-	34,829
-	34,829
-	46,000
-	100,778
-	57,093
-	28,532
-	11,944
75,128	4,479,285
(10,162)	1,182,337
182,046	550,655
20,612	65,187
641,964	2,016,936
-	10,162
(650,000)	-
(2,437)	714,738
-	420,923
182,023	4,960,938
(106,895)	(481,653)
(6,521)	6,521
6,521	(6,521)
-	-
(106,895)	(481,653)
4,035,051	8,010,242
<u>\$ 3,928,156</u>	<u>\$ 7,528,589</u>

# Ypsilanti District Library

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## Notes to Financial Statements November 30, 2004

### **Note I - Nature of Organization and Summary of Significant Accounting Policies**

Ypsilanti District Library (the "Library") began operations as a district library in May 1983 when it began receiving tax revenue from Ypsilanti Township and the City of Ypsilanti.

The accounting policies of the Ypsilanti District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Ypsilanti District Library:

During the current year, the Library has implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- The Library's activities are presented on both the modified accrual basis of accounting (as in the past) as well as the full accrual basis of accounting.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

#### **Reporting Entity**

The Library is governed by an elected seven-member Board of Trustees. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

#### **Modified Accrual and Full Accrual Data**

The Library reports the following governmental funds:

**General Fund** - The General Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, penal fines, state-shared revenue, and other sources.

**Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)**

**Debt Service Fund** -The Debt Service Fund is used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

**Capital Projects Fund** - The Capital Projects Fund is used to account for the development of capital facilities.

The funds are budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

In addition to presenting information for the separate funds, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Library's borders encompass both the City of Ypsilanti and Ypsilanti Township. Properties in each governmental unit are assessed as of December 31. The related taxes are billed to the City of Ypsilanti residents on July 1 and to Ypsilanti Township residents on December 1 of the following year. The related property taxes become a lien on December 1. These taxes are due on September 1 and February 14, respectively, with the final collection date of February 28 before they are added to the county tax rolls.

# Ypsilanti District Library

## Notes to Financial Statements November 30, 2004

### Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

#### Financial Statement Amounts

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Investments** - Investments are recorded at fair value, based on quoted market prices.

**Capital Assets** - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$1,000 capitalization threshold.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-40 years
Furniture and fixtures	10-20 years
Vehicles	7 years
Computer and office equipment	3-5 years
Site improvements	20 years
Collections	5 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.



### **Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)**

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - The annual budget is prepared by the Library management and adopted by the Library Board; subsequent amendments are approved by the Library Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at November 30, 2004 has not been calculated.

The budget process is initiated in June for the following fiscal year by a committee appointed by the Board. This committee forecasts the financial implications for the upcoming fiscal year and forwards it to the Library Director. The Library director develops a draft budget and submits it to the finance committee who reviews and revises the draft budget. The Library Board then approves the budget after a public hearing in November.

The General Fund and Debt Service Fund budgets have been prepared in accordance with accounting principles generally accepted in the United States of America, with the exception that operating transfers have been included in the "revenue" and "expenditure" categories, rather than as "other financing sources (uses)."

The budgetary comparison schedules for both the General and Debt Service Funds are presented on the same basis of accounting used in preparing the adopted budget.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

The budget has been adopted on a total basis for revenue and a departmental basis for expenditures; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the budget as adopted by the Library Board can be seen by examining the totals in the budgetary comparison schedules for both the General and Debt Service Funds in the required supplementary information section. The line-item detail shown for revenue is not part of the adopted budget and is shown for management analysis only.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated seven banks for the deposit of Library funds. The investment policy for unrestricted funds adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all of the authorized investment vehicles listed above. The investment policy for the Board-designated endowment fund and restricted funds adopted by the Board has authorized investments in accordance with the Uniform Management of Institutional Funds Act, Public Act 157 of 1976. The Library's deposits and investment policies are in accordance with statutory authority.

# Ypsilanti District Library

## Notes to Financial Statements November 30, 2004

### Note 3 - Deposits and Investments (Continued)

The Library's deposits and investments at November 30, 2004 are reported in the basic financial statements under the following classifications:

	<u>Governmental Activities</u>		
	Cash and		
	Cash		
	Equivalents	Investments	Total
Deposits	\$ 2,553,914	\$ 804,173	\$ 3,358,087
Investments in securities, mutual funds, and similar vehicles	445,012	14,336	459,348
Petty cash	230	-	230
Total	<u>\$ 2,999,156</u>	<u>\$ 818,509</u>	<u>\$ 3,817,665</u>

#### Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$3,651,000. Of that amount, approximately \$1,012,000 was covered by federal depository insurance and the balance was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library at November 30, 2004. Risk Category I includes those investments that meet any one of the following criteria:

- Insured
- Registered
- Held by the Library or its agent

# Ypsilanti District Library

## Notes to Financial Statements November 30, 2004

### Note 3 - Deposits and Investments (Continued)

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the Library's name

At year end, the Library's investment balances were categorized as follows:

U.S. government bonds (Category 2)	\$ 445,012
Mutual funds	<u>14,336</u>
Total	<u><u>\$ 459,348</u></u>

The Library's mutual funds were acquired as the result of a donation. They are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC.

### Note 4 - Capital Assets

Capital asset activity of the Library is as follows:

	Balance December 1, 2003	Additions	Disposals and Adjustments	Balance November 30, 2004
Capital assets not being depreciated - Land	\$ 1,003,899	\$ -	\$ -	\$ 1,003,899
Capital assets being depreciated:				
Buildings	16,387,585	-	-	16,387,585
Furniture and fixtures	1,660,433	-	-	1,660,433
Vehicles	167,358	-	-	167,358
Computer and office equipment	365,498	41,169	-	406,667
Site improvements	139,114	14,211	-	153,325
Collections - Library books, CDs, and audio/visual	<u>2,795,696</u>	<u>355,107</u>	<u>-</u>	<u>3,150,803</u>
Subtotal	21,515,684	410,487	-	21,926,171
Accumulated depreciation	<u>(2,519,247)</u>	<u>(1,233,508)</u>	<u>-</u>	<u>(3,752,755)</u>
Net capital assets being depreciated	<u>18,996,437</u>	<u>(823,021)</u>	<u>-</u>	<u>18,173,416</u>
Net capital assets	<u><u>\$ 20,000,336</u></u>	<u><u>\$ (823,021)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,177,315</u></u>

# Ypsilanti District Library

## Notes to Financial Statements November 30, 2004

### Note 5 - Long-term Debt

Long-term debt activity can be summarized as follows:

	Balance December 1, 2003	Additions	Reductions	Balance November 30, 2004	Due Within One Year
<b>Governmental Activities</b>					
Bonds payable - 1999 General Obligation Bonds, original issue of \$17,635,000 maturing through 2019, with interest rates ranging from 4.50%-4.75%	\$ 15,765,000	\$ -	\$ (650,000)	\$ 15,115,000	\$ 695,000
Other long-term liabilities - Compensated absences	142,431	11,439	-	153,870	122,885
Total long-term debt and other long-term liabilities	<u>\$ 15,907,431</u>	<u>\$ 11,439</u>	<u>\$ (650,000)</u>	<u>\$ 15,268,870</u>	<u>\$ 817,885</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation and sick pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library.

### Debt Service Requirements

The annual requirements to service all debt outstanding as of November 30, 2004 (excluding employee benefits), including both principal and interest, are as follows:

Years Ending November 30	Principal	Interest	Total
2005	\$ 695,000	\$ 686,598	\$ 1,381,598
2006	730,000	654,535	1,384,535
2007	770,000	620,785	1,390,785
2008	810,000	585,235	1,395,235
2009	850,000	547,885	1,397,885
2010-2014	4,935,000	2,102,546	7,037,546
2015-2019	6,325,000	780,069	7,105,069
Total	<u>\$ 15,115,000</u>	<u>\$ 5,977,653</u>	<u>\$ 21,092,653</u>

Interest expense of the Library for the year ended November 30, 2004 approximated \$714,000.

# **Ypsilanti District Library**

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## **Notes to Financial Statements November 30, 2004**

### **Note 6 - Reserved Fund Balance/Restricted Net Assets**

Fund balance has been reserved for debt service in an amount equal to collections of debt millage in excess of bond payments to date.

The Library has received donations that have been restricted for expenditures relating to the development of the Library's collection. Fund balance has been reserved in an amount equal to the donation less any expenditures.

Both of the above items meet the criteria that also require the amounts to be restricted on the statement of net assets.

### **Note 7 - Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for medical claims and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property and general liability and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 8 - Defined Contribution Retirement Plan**

The Library provides a pension plan to all of its employees who are over 21 years of age and earn more than \$450 annually through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. As established by the Board, the Library contributes 5 percent of employees' gross earnings and employees may contribute up to an additional 10 percent of earnings. The Library's contributions for each employee (plus interest allocated to the employee's account) are fully vested after the first deposit. In accordance with these requirements, the Library contributed \$50,048 during the year, and employees contributed \$47,865.

# Ypsilanti District Library

## Notes to Financial Statements November 30, 2004

### Note 9 - Reconciliation of General Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's General Fund differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and the statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and the statement of activities versus the current financial resources focus of the General Fund balance sheet and the statement of revenue, expenditures, and changes in Fund Balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

<b>Total Fund Balance</b> - Modified accrual basis	\$ 3,600,433
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Amounts reported in the statement of net assets are different  
because:

Capital assets are not financial resources, and are not reported in the funds	19,177,315
--	------------

Property taxes were recorded as deferred revenue for governmental funds as funds were not received within 60 days of fiscal year	78,231
--	--------

Long-term liabilities are not due and payable in the current period and are not reported in the funds	(15,115,000)
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Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(58,520)
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Compensated absences are included as a liability	<u>(153,870)</u>
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<b>Total Net Assets</b> - Full accrual basis	<u><u>\$ 7,528,589</u></u>
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# Ypsilanti District Library

## Notes to Financial Statements November 30, 2004

### Note 9 - Reconciliation of General Fund Financial Statements to Government-wide Financial Statements (Continued)

**Net Change in Fund Balances** - Modified accrual basis \$ (374,758)

Amounts reported in the statement of activities are different  
because:

Capital outlays are reported as expenditures in the  
statement of revenue, expenditures, and changes in fund  
balance; in the statement of activities, these costs are  
allocated over their estimated useful lives as depreciation:

Library books and materials	355,107
Capital outlay	55,380
Depreciation	(1,233,508)

Property tax revenue not recorded in the governmental funds as monies were not received within 60 days of fiscal year end	75,128
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Increase in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(11,439)
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Decrease in accrued interest reported as revenue in the statement of activities, but not in the fund statements	2,437
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Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>650,000</u>
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**Net Change in Net Assets** - Full accrual basis \$ (481,653)



## **Required Supplemental Information**

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# Ypsilanti District Library

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended November 30, 2004

	Original Budget	Final Amended Budget	Actual Balance	Variance Favorable (Unfavorable)
<b>Revenue</b>				
Property taxes	\$ 2,510,120	\$ 2,510,120	\$ 2,482,095	\$ (28,025)
Penal fines	141,950	141,950	158,386	16,436
State revenue-sharing	39,876	39,876	39,897	21
State aid:				
Direct	34,858	34,858	34,829	(29)
Indirect	34,858	34,858	34,829	(29)
Superior Township contract	46,000	46,000	46,000	-
Miscellaneous	64,000	64,000	100,778	36,778
Interest income	58,230	58,230	50,237	(7,993)
Donations	1,500	1,500	28,532	27,032
Friends of the Library gift	2,000	2,000	11,944	9,944
Transfers in	-	-	6,108	6,108
<b>Total revenue</b>	<b>2,933,392</b>	<b>2,933,392</b>	<b>2,993,635</b>	<b>60,243</b>
<b>Expenditures</b>				
Administration	2,268,242	1,218,705	1,192,499	26,206
Michigan Avenue	134,650	373,163	368,609	4,554
Bookmobile	8,500	45,716	44,575	1,141
Whittaker Road	522,000	1,389,846	1,374,972	14,874
Expenditures from donations revenue	-	-	10,162	(10,162)
<b>Total expenditures</b>	<b>2,933,392</b>	<b>3,027,430</b>	<b>2,990,817</b>	<b>36,613</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>-</b>	<b>(94,038)</b>	<b>2,818</b>	<b>96,856</b>
<b>Fund Balance - December 1, 2003</b>	<b>3,317,650</b>	<b>3,317,650</b>	<b>3,317,650</b>	<b>-</b>
<b>Fund Balance - November 30, 2004</b>	<b>\$ 3,317,650</b>	<b>\$ 3,223,612</b>	<b>\$ 3,320,468</b>	<b>\$ 96,856</b>

# Ypsilanti District Library

## Required Supplemental Information Budgetary Comparison Schedule - Debt Service Fund Year Ended November 30, 2004

	Original Budget	Final Amended Budget	Actual Balance	Variance Favorable (Unfavorable)
<b>Revenue</b>				
Property taxes	\$ 1,400,865	\$ 1,400,865	\$ 1,409,774	\$ 8,909
Interest income	-	-	3,804	3,804
Transfers in	-	-	413	413
Total revenue	1,400,865	1,400,865	1,413,991	13,126
<b>Expenditures - Debt Service</b>				
Principal	650,000	650,000	650,000	-
Interest	717,310	717,310	717,175	135
Total expenditures	1,367,310	1,367,310	1,367,175	135
<b>Excess of Revenue Over Expenditures</b>	33,555	33,555	46,816	13,261
<b>Fund Balance - December 1, 2003</b>	233,149	233,149	233,149	-
<b>Fund Balance - November 30, 2004</b>	<u>\$ 266,704</u>	<u>\$ 266,704</u>	<u>\$ 279,965</u>	<u>\$ 13,261</u>

## **Other Supplemental Information**

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# Ypsilanti District Library

## Other Supplemental Information Schedule of Operating Expenditures - General Fund Year Ended November 30, 2004

	Reserved for		Designated for						
	Salary and Benefits	Library Materials	Contractual	Automation and Capital Outlay	Other Designated Expenses	Total	Budget	Under (Over) Budget	Percent of Total
Administration	\$ 739,462	\$ -	\$ 125,189	\$ 138,326	\$ 189,522	\$ 1,192,499	\$ 1,218,705	\$ 26,206	39.9
Michigan Avenue	205,313	92,138	18,729	8,356	44,073	368,609	373,163	4,554	12.3
Bookmobile	36,852	-	-	-	7,723	44,575	45,716	1,141	1.5
Whittaker	805,680	299,412	65,950	4,802	199,128	1,374,972	1,389,846	14,874	46.0
Expenditures from donations revenue	-	10,162	-	-	-	10,162	-	(10,162)	0.3
Total	<u>\$ 1,787,307</u>	<u>\$ 401,712</u>	<u>\$ 209,868</u>	<u>\$ 151,484</u>	<u>\$ 440,446</u>	<u>\$ 2,990,817</u>	<u>\$ 3,027,430</u>	<u>\$ 36,613</u>	<u>100.00</u>

January 25, 2005

Board of Directors  
Ypsilanti District Library  
5577 Whittaker Road  
Ypsilanti, MI 48197

Dear Board Members:

We recently completed our audit of the financial statements of the Ypsilanti District Library for the year ended November 30, 2004. We would like to take this opportunity to thank your staff and management for their assistance in helping us to perform our audit. As part of our audit, we offer the following comment for your consideration.

#### **Donated Stock**

In the late 1990's, the Library received a donation of stock, which was donated with no restrictions. Although the stock has increased in value since the date of donation, the increase does not provide liquid cash for the Library's use. The Library may want to consider liquidating the stock and using the proceeds for a specific project or library improvement, as the increase in stock value does not benefit the Library until it is sold.

#### **Statement of Auditing Standards No 99**

During the current year's audit, we were required to implement Statement of Auditing Standards Number 99. The new standard requires that we review our client's general journal entries in more detail than previously required, as well as perform inquiries related to the potential for the existence of fraud. We are happy to report that based on the results of our additional testing and inquiries provided no indication of fraud occurring within the Library.

#### **Health Care Costs**

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the Library may want to consider this option as it evaluates and continues to try to control its health care costs.

### Implementation of Prior Year's Suggestions

We would like to compliment the Board on the action taken in regard to the letter of comments we issued for the year ended November 30, 2003. All comments and recommendations were implemented or corrected during the year ended November 30, 2004. We appreciate the assistance and cooperation we have received from all the Library staff during the course of our examination. If any questions should arise on reviewing the financial statements or the above comments, we would be happy to discuss them with you.

Very truly yours,

**PLANTE & MORAN, PLLC**



Leslie J. Pulver



Wendy N. Trumbull